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Message Text

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INFO OCT-01 ISO-00 STR-04 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 XMB-02

OPIC-03 /097 W
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R 101714Z NOV 75
FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 9940
INFO ALL EC CAPITALS 1299

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PASS AGRICULTURE

E.O. 11652: N/A
TAGS: ETRD, EAGR, EEC
SUBJECT: REFORM OF THE CAP?

REF: A. EC BRUSSELS 9841
B. EC BRUSSELS 7736
C. EC A-358, AUGUST 26, 1975
D. EC BRUSSELS 9777
E. BONN 18212

1. BEGIN SUMMARY: THE BLAND EXCHANGE OF VIEWS ON OCTOBER 29-30 IN THE AGRICULTURAL COUNCIL DID LITTLE TO CLARIFY THE EVENTUAL OUTCOME OF THE CAP STOCKTAKING EXERCISE. GERMANY HAS PROVIDED THE MAJOR PUSH TO "DO SOMETHING" ABOUT THE CAP BUT, DESPITE ITS TIGHT-FISTED APPROACH TO THE BUDGET, HAS BEEN THUS FAR UNABLE TO COME UP WITH CONCRETE PROPOSALS FOR CAP POLICY CHANGES. THE UK NOW SEEMS TO BE PRIMARILY INTERESTED IN OBTAINING CERTAIN SPECIFIC MODIFICATIONS FOR THE BENEFIT OF ITS FARMERS AND
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CONSUMERS. ITALY HAS SEIZED ON THE STOCKTAKING EXERCISE TO

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REMEDY WHAT IT SEES AS A "BIAS" OF THE CAP TOWARDS NON-MEDI-
TERRANEAN AGRICULTURE. THE OTHER MEMBER STATES DO NOT SEEM
PREPARED TO MAKE THE BASIC REFORMS THAT WOULD BE NECESSARY TO
REDUCE THE COST OF THE CAP. THE MISSION FEELS THAT THE CAP
WILL REMAIN ESSENTIALLY IN ITS PRESENT FORM, THOUGH COST CONCERNS
ARE LIKELY TO PREVENT SIGNIFICANT INCREASES IN THE REAL VALUE
OF THE BUDGET.

2. THE MISSION HAS RECENTLY SENT IN A NUMBER OF CABLES ON THE
CAP STOCKTAKING (REF A AND PREVIOUS) AND ON THE RELATED QUESTION
OF THE BUDGET (REF D). THIS CABLE ATTEMPTS TO TIE THESE TWO
ISSUES TOGETHER AND COMMENT ON MEMBER STATE VIEWS. HOWEVER,
IN MANY MEMBER STATE GOVERNMENTS THESE POLICY PROBLEMS ARE
THE SUBJECT OF SHARP INTER-AGENCY DISPUTES, AND IT IS DIFFICULT
FROM BRUSSELS TO JUDGE THE RELATIVE WEIGHT OF THE CONTESTANTS.
WE WOULD WELCOME COMMENTS OF EMBASSIES ON THESE ISSUES AS
THEY APPEAR FROM MEMBER STATE CAPITALS. END SUMMARY.

3. WITH THE SPECIAL OCTOBER 29-30 SESSION OF THE AGRICULTURAL
MINISTERS, THE COUNCIL OF MINISTERS FORMALLY BEGAN DELIVERATIONS
AIMING AT A REFORM OR REVISION OF THE CAP. THE PERSISTENT
CALLS, PARTICULARLY BY THE GERMANS, FOR A COST-SAVING REFORM
OF THE CAP AS WELL AS THE PORT PONEMENT OF MAJOR POLICY DECISIONS
IN THE WINE AND DAIRY SECTORS UNTIL "AFTER THE STOCKTAKING"
HAVE CREATED WIDESPREAD EXPECTATION OF EITHER MAJOR ACCOMPLISH-
MENTS OR A MAJOR CRISIS. NEVERTHELESS, THE CONTENT OF ANY
POSSIBLE REFORM AND THE DEGREE OF MILITANCY WITH WHICH THE
VARIOUS MEMBER STATES (IN PARTICULAR, GERMANY) WILL APPROACH
THESE DELIBERATIONS REMAIN UNCLEAR. AND THE BLAND PERFORMANCE
OF THE AGRICULTURAL MINISTERS ON OCTOBER 29-30 DID NOTHING TO
CLARIFY THESE ISSUES. (IF IS OF COURSE NOT THE AGRICULTURAL
MINISTERS THAT HAVE THE STRONGEST URGE TO UPSET THE STATUS
QUO.) THE FOLLOWING PARAGRAPHS GIVE THE MISSION'S CURRENT
READING OF THE POSITION OF THE MEMBER STATES VIS-A-VIS CAP REFORM.
(WE HAVE ALREADY TOUCHED UPON THESE POSITIONS IN REFS A, B
AND C.)

4. GERMANY: CERTAINLY THE MOST STRIKING FEATURE OF THE EC
LANDSCAPE THIS AUTUMN HAS BEEN GERMANY'S RESISTANCE TO EC
EXPENDITURES. SCHMIDT HAS IN FACT ASSOCIATED HIMSELF PERSONALLY
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WITH THIS RESISTANCE THROUGH LETTERS TO ORTOLI AND TO HIS
COUNTERPARTS IN THE MEMBER STATES, AND BY MAKING PUBLIC STATE-
MENTS CRITICIZING THE FUNCTIONING AND COST OF THE CAP. SENSI-
TIVITY TO THE COST OF THE CAP IS NOT NEW FOR GERMANY. IT IS
THE LARGEST NET CONTRIBUTOR TO THE EC BUDGET AND THEREFORE
HAS BEEN A VOCAL CRITIC OF FEOGA EXPENDITURES, WHICH ACCOUNT
FOR THREE-QUARTERS OF THE TOTAL BUDGET. BUT SUCH CRITICISM
HAS HARDENED UNDER THE PRESENT GERMAN SOCIALIST GOVERNMENT

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AND, PARTICULARLY UNDER SCHMIDT'S INFLUENCE, AS THAT GOVERNMENT HAS STRIVED TO FIGHT INFLATION AND CUT GOVERNMENTAL EXPENDITURES. ACCORDING TO GERMAN PERMDEL SOURCES, SCHMIDT'S HARD LINE HAS STEMMED FROM A DESIRE (A) TO SHOW THE GERMAN PUBLIC THAT HE IT TOUGH ON GOVERNMENT EXPENDITURES, AND (B) TO REDUCE THE PROPORTION OF FEOGA EXPENDITURES IN THE BUDGET. THE DIS-APPOINTMENT OF THE SCHMIDT GOVERNMENT WITH THE COMMUNITY'S TARNISHED RECORD ON ECONOMIC INTEGRATION, E.G., FAILURE TO HARMONIZE EXPORT CREDITS AND AID TREATMENT, THE BRITISH ATTITUDE ON ENERGY, ETC., HAS ALSO FUELED GERMAN RESENTMENT OF THE GUDGETARY REQUIREMENTS IMPOSED BY THE CAP. IN THIS CONTEXT, THE CAP HAS COME IN FOR MORE THAN ITS USUAL CHARE OF CRITICISM. BUT WHEREAS GERMAN PRESSURES ON EC AGRICULTURAL EXPENDITURES HAVE BEEN STRONG, THEY HAVE ALSO APPEARED TO BE HEAVY-HANDED AND TO HAVE LACKED EFFECTIVENESS IN GARNERING SUPPORT AMONG THE OTHER MEMBER STATES. THERE MAY BE A CERTAIN FATALISM IN THIS APPROACH, FOR SOME GERMAN OFFICIALS HAVE TOLD US THAT GERMANY BELIEVES IT WILL TAKE FOUR OR FIVE YEARS TO PERSUADE OTHER MEMBER STATES TO GO ALONG WITH SUBSTANTIAL REFORMS.

5. THE GERMAN PERFORMANCE ON SEVERAL ASPECTS OF THE STOCKTAKING DEBATE (FOR EXAMPLE, THE EC-EGYPT LONG-TERM COMMODITY AGREE-MENT) SUGGESTS A LACK OF COORDINATION OR AGREEMENT WITHIN THE GERMAN GOVERNMENT. INDEED, THERE IS NO REASON WHY ERTL, AS A REPRESENTATIVE OF GERMAN FARMERS' INTERESTS, SHOULD BE PARTICULARLY KEEN ON PURSUING THE TYPES OF REFORM WHICH WOULD SIGNIFICANTLY LIMIT EC FINANCIAL OUTLAYS. GERMAN FARMERS ARE, AFTER ALL, A MAJOR BENEFICIARY OF EXISTING CAP PROGRAMS AND BY VIRTUE OF THE SYSTEM OF MONETARY COMPENSATORY AMOUNTS THEY HAVE A PRIVILEGED POSITION. THIS IS WHY THE GERMANS HAVE SO RARELY COUPLED THEIR CRITICISMS OF EC FINANCIAL POLICIES AND MANAGEMENT WITH CONCRETE PROPOSALS FOR POLICY IMPROVEMENTS.

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TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 XMB-02

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TO SECSTATE 9941
INFO ALL EC CAPITALS 1300

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PASS AGRICULTURE

6. UNITED KINGDOM: THE BRITISH ARE ALSO CONCERNED WITH CAP COSTS AND WITH MARKET IMBALANCES IN SOME SECTORS. THOUGH THEY MAY BE AS CRITICAL OF THE CAP AS THE GERMANS, THEY WILL ATTEMPT TO ORIENT THE STOCKTAKING DISCUSSIONS TOWARD PRAGMATIC POLICY CHANGES WHILE STILL SUPPORTING GERMANY'S INSISTENCE ON TIGHTER FINANCIAL CONTROLS. HOWEVER, THEY ARE NOT WILLING TO JOIN THE GERMANS IN A FRONTAL ASSAULT ON THE CAP (AS THEY PROVED IN THE BUDGET MEETINGS).

7. THERE ARE SEVERAL REASONS FOR THE UK'S LOW-KEY APPROACH TO THE STOCKTAKING. THE CAP HAS NOT PROVED TO BE AS ONEROUS A BURDEN FOR THEM AS ORIGINALLY ANTICIPATED. IN FACT, DUE TO THE MECHANICS OF CAP FINANCING, THE UK WILL BE A NET RECIPIENT OF THE FARM FUND THIS YEAR. IN THIS CIRCUMSTANCE THE UK MAY PREFER NOT TO BE TOO PROMINENT IN ATTACKING ONE OF THE FUNDAMENTAL PILLARS OF THE COMMUNITY. ITS LUKEWARM COMMUNITARIANISM ON SUCH ISSUES AS RENEGOTIATION AND SEPARATE REPRESENTATION IN THE NORTH-SOUTH CONFERENCE HAVE BEEN WIDELY RESENTED.
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8. THE UK ATTITUDE TOWARDS THE STOCKTAKING IS ALSO SHAPED, TO AN IMPORTANT DEGREE, BY THE FACT THAT, UNLIKE THE GERMANS, THE BRITISH HAVE A NUMBER OF SPECIFIC POLICY OBJECTIVES. AS SUGGESTED IN REF A, THESE OBJECTIVES AIM PRIMARILY AT MAINTAINING THE USE OF TRADITIONAL POLICY INSTRUMENTS IN THE AGRICULTURAL SECTOR. THEY INCLUDE:
A. GREATER USE OF PREMIUMS AND LESS INTERVENTION IN THE BEEF SECTOR;

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B. RESTRAINING THE SCHEDULED INCREASES IN THE UK BUTTER PRICE;
C. BETTER ADAPTING THE DAIRY CAP TO THE UK INDUSTRY WITH ITS EMPHASIS ON FLUID MILK;
D. GREATER USE OF CONSUMER SUBSIDIES IN DISPOSAL OF EC SURPLUSES;
E. GREATER GEOGA SUPPORT FOR BRITISH CONSUMER SUBSIDIES FOR BUTTER AND BEEF SLAUGHTER PREMIUMS.
THESE OBJECTIVE DO NOT NECESSARILY COINCIDE WITH THE GOAL OF CONTROLLING COSTS. QUITE OBVIOUSLY, SOME OF THEM WOULD INCREASE FEOGA EXPENDITURE. AND THEY ARE MORE LIKELY TO BE OBTAINED THROUGH JUDICIOUS HORSE-TRADING THAN THROUGH A BROAD REFORM OF THE CAP.

9. FRANCE: ON THE BASIS OF PAST PERFORMANCE, FRANCE CAN BE EXPECTED TO SQUARELY OPPOSE ANY TAMPERING WITH THE FUNDAMENTAL CAP COMPROMISE. HOWEVER, THE MILDNESS EXHIBITED BY THE FRENCH IN THE STOCKTAKING DEBATE TOGETHER WITH STATEMENTS OF WILLINGNESS TO ACCEPT CERTAIN CHANGES SUGGEST A POSSIBLE SHIFT IN THE FRENCH POSITION. THIS POSSIBILITY IS REINFORCED BY THE DETERIORATION OF FRANCE'S FINANCIAL POSITION RE FEOGA. FRANCE'S SHARE OF RECEIPTS FROM THE GUARANTEE SECTION OF FEOGA FELL SHARPLY IN 1974; THESE RECEIPTS, WHICH HAD ACCOUNTED FOR 110 PERCENT OF THE TOTAL FRENCH CONTRIBUTIONS TO THE EC BUDGET IN 1973, ACCOUNTED FOR ONLY SLIGHTLY MORE THAN 60 PERCENT OF THIS AMOUNT IN 1974. NEVERTHELESS, FRANCE HAS AS YET GIVEN NO INDICATION AS TO WHAT SPECIFIC CHANGES IN THE CAP MIGHT BE ACCEPTABLE.

10. ITALY: THE MAJOR CONCERN OF THIS MEMBER STATE IS TO ACHIEVE A MORE EQUITABLE DISTRIBUTION OF FEOGA MONEY (READ MORE FINANCIAL ASSISTANCE FOR ITALIAN AGRICULTURE). ITALY HAS CONSISTENTLY POINTED TO WHAT IT CALLS PREFERENTIAL TREATMENT OF THE MORE LIMITED OFFICIAL USE

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DEVELOPED, NORTHERN STATES. IT HAS PRESSED FOR INCREASES IN COMMUNITY FINANCING OF STRUCTURAL IMPROVEMENT PROJECTS, WHILE REJECTING THE ABILITY OF A PRICE POLICY ALONE TO ENCOURAGE THE DEVELOPMENT OF FARM PRODUCTION OR TO ADEQUATELY AUPPORT FARMERS' INCOMES. THUS, THE ITALIANS HAVE ALSO CALLED FOR DIRECT INCOME PAYMENTS TO FARMERS.

11. ITALY'S ATTACKS ON THE HIGH COST OF THE CAP, PARTICULARLY THE DAIRY POLICY, WOULD SEEM TO REFLECT TACTICAL CONSIDERATIONS RATHER THAN DEEP CONCERN. SPECIFICALLY, THEY DO NOT WANT TO PERMIT THE COMMUNITY TO GET AWAY WITH INSTITUTING A STRICT REGIME ON WINE WHILE CONTINUING OPEN-ENDED SUPPORT OF DAIRY AND GRAIN FARMERS. SHOULD THEY SUCCEED IN OBTAINING A SUITABLY LARGER SHARE OF THE FEOGA PIE, THESE OBJECTIONS WOULD PROBABLY DISAPPEAR. ALSO, ITALY WILL STRONGLY OPPOSE ANY COST-SAVING CHANGES IN THE OLIVE OIL OR DURUM WHEAT POLICIES. (THE STOCK-

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TAKING REPORT RECOMMENDS AN OVERHAULING OF BOTH OF THESE POLICIES--WHICH ARE WIDELY REGARDED AS ECONOMICALLY UNREASONABLE.)
(#)
OTHER MEMBER STATES: THE SMALLER STATES ARE BASICALLY CONTENT WITH THE STATUS QUO. WITH THE EXCEPTION OF BELGIUM, THEY ARE ALL SUBSTANTIAL NET BENEFICIARIES OF THE FEOGA GUARANTEE SECTION. THUS, THEY ARE NOT OVERLY CONCERNED WITH THE COST OF THE CAP. AND THEY HAVE THE MOST TO LOSE FROM DEROGATIONS FROM THE PRINCIPLES OF COMMON FINANCING AND PRICING.

13. ALTHOUGH THE BELGIANS CONTRIBUTE MORE TO THE EC BUDGET THAN THEY GET FOR FARM SUPPORT PROGRAMS, THEY ARE APPARENTLY QUITE SATISFIED WITH ITS OPERATION. THEY MADE ONE OF THE STRONGEST SPEECHES IN ITS SUPPORT AT THE OCTOBER 29-30 COUNCIL MEETING. THE DUTCH, ON THE OTHER HAND, WERE QUITE LOW-KEY IN THEIR SUPPORT OF THE CAP. BUT THERE IS NO MISTAKING THEIR VESTED INTEREST IN THE CAP--EVEN IF, AS A MINOR POWER IN THE EC GALAXY, THEY CANNOT AFFORD TO BE INFLEXIBLE. THE NETHERLANDS HAVE ALWAYS BEEN A BIG NET RECIPIENT OF FEOGA FUNDS; IN 1972-74, RECEIPTS FROM THE FEOGA GUARANTEE SECTION MORE THAN COVERED TOTAL DUTCH CONTRIBUTIONS TO THE EC BUDGET. THE DUTCH ARE LIKELY TO ACCEPT SACRIFICES ONLY TO THE EXTENT THAT THESE APPEAR ABSOLUTELY NECESSARY TO PRESERVE THAT BASIC STRUCTURE OF THE CAP.

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14. FOR THE DANES THE CAP IS ONE OF THE MOSE IMPORTANT BENEFITS OF ACCESSION. FOR THE IRISH, IT IS THE MOST IMPORTANT BENEFIT. THE TYPE OF CHANGES THESE COUNTRIES ARE SEEKING ARE THOSE WHICH WOULD STRENGTHEN THE CAP--FOR EXAMPLE, THE REMOVAL OF MONETARY COMPENSATORY AMOUNTS. THE IRISH HAVE OFTEN ECHOED THE COMMUNITY PREFERENCE ARGUMENT OF THE ITALIANS--DEMANDING A STRONGER INTERVENTION SYSTEM FOR BEEF, A SHEEPMEAT CAP, AND GREATER EC FUNDING OF STRUCTURAL PROGRAMS. (BUT, OF COURSE, THEY HAVE NO COMPLAINT WITH THE CAIRY CAP.) THEY HAVE BEEN THE MOST MILITANT OF ALL THE MEMBER STATES IN DEFENDING THE CAP.

NOTE BY OC/T: EC BRUSSELS 10105 (SEC 2 OF 3). APPARENT OMISSION OF FIRST LINE OF PARA 12. CORRECTION TO FOLLOW.

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FM USMISSION EC BRUSSELS
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PASS AGRICULTURE

15. CURRENT EC DELIBERATIONS ON THE REVISION OF THE CAP ARE VERY MUCH DOMINATED BY THE ENORMOUS DAIRY SURPLUS PROBLEM. WHEREAS GRAIN POLICY IS NO LONGER UNDER FIRE, AND THE SITUATION SEEMS TO BE IMPROVING IN THE BEEF AND WINE SECTORS, NO HOPE APPEARS IN SIGHT FOR DAIRY, AND THE COMMISSION EXPECTS NONE FOR SOME TIME, THOUGH IT DID SINGLE OUT THIS SECTOR FOR "PRODUCER CO-RESPONSIBILITY." THE COMMUNITY HAS BUDGETED NEARLY 2 BILLION U.A. FOR THIS SECTOR FOR 1976. TO SPEAK OF CONTROLLING THE COST OF THE CAP IS TO SPEAK LARGELY OF CHANGING DAIRY POLICIES. DAIRY SUPPORT APPROPRIATIONS IN FY 1976 ARE 53 PERCENT MORE THAN THE PREVIOUS YEAR AND 38 PERCENT OF TOTAL APPROPRIATIONS FOR AGRICULTURAL SUPPORT. BUT IT IS PRECISELY THIS SECTOR WHICH PRESENTS THE GREATEST SOCIAL AND POLITICAL OBSTACLES TO SUCH CHANGES. MORE EC FARMERS ARE INVOLVED IN DAIRYING THAN IN ANY OTHER ACTIVITY AND THE PERCENTAGE IS PARTICULARLY HIGH AMONG LOW-INCOME FARMERS. THE POLITICAL CONSEQUENCES OF ALIENATING THIS GROUP ARE WIDELY SEEN AS CATASTROPHIC.

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16. THE PIECES IN THE PRECEDING PARAGRAPHS TOGETHER ARE NOT A CLEAR PICTURE OF WHERE THE COMMUNITY IS GOING ON THE QUESTION OF THE CAP REFORM. IS DISENCHANTMENT WITH THE CURRENT STATE OF AFFAIRS--PARTICULARLY IN THE GERMAN GOVERNMENT--STRONG ENOUGH

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TO FORCE A SIGNIFICANT CHANGE NOT JUST IN THE CAP BUT IN
THE COMMUNITY SYSTEM ITSELF? ARE THE SHARPER AND SEEMINGLY
MORE FREQUEST CRISES WARNINGS OF STRONGER CENTRIFUGAL TENDENCIES?

17. GIVEN THAT CERTAIN KEY ELEMENTS OF THE SITUATION ARE
STILL NOT CLEAR TO US, THE MISSION VIEW IS THAT THE CAP WILL
REMAIN LARGELY IN ITS PRESENT FORM. WE DO NOT FEEL THAT THE MEMBER
STATE GOVERNMENTS ARE NOW PREPARED TO UNDERTAKE THE CONTRO-
VERSIAL HIGH-LEVEL POLITICAL DECISIONS REQUIRED TO EFFECT A
REFORM OF THE CAP. SIGNIFICANT MODIFICATIONS OF CERTAIN ASPECTS
OF THE CAP (FOR EXAMPLE, GRAIN PRICING POLICIES) DO APPEAR
IMMINENT. BUT SUCH CHANGES WILL NOT INTRODUCE A SUBSTANTIALLY
LARGER MEASURE OF CONTROL OVER THE COST OF THE CAP--WHICH WILL
CONTINUE TO DEPEND ON THE LARGELY UNFORESEEN AND UNCONTROLLABLE
DEVELOPMENT OF COMMODITY MARKETS. NEVERTHELESS, A NUMBER OF
MEMBER STATE OFFICIALS SEEM TO BELIEVE THAT THE TOTAL "REAL"
EXPENDITURES (I.E., MONETARY EXPENDITURES, ADJUSTED FOR INFLATION)
ARE NOT LIKELY TO INCREASE MUCH BECAUSE THE CONCERN OVER
BUDGET OUTLAYS WILL RESTRAIN INCREASES IN FARM SUPPORT PRICES.

18. INFO ADDRESSESS IN CAPITALS MAY WISH TO COMMENT, IN PARTI-
CULAR ON NON-AGRICULTURAL CONSIDERATIONS, WHICH MAY PRESSURE
THE MEMBER STAGE GOVERNMENTS TO PUSH FOR A REVISION OR REFORM
OF THE CAP. EMBASSIES ARE IN A BETTER POSITION THAN USEC
TO ESTIMATE THE POLITICAL WEIGHT OF THE GOVERNMENT AGENCIES
AND POLITICAL INTEREST GROUPS THAT WILL INFLUENCE FINAL DECISIONS
IN GOVERNMENTS ON THESE MATTERS.MORRIS

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